

# OPERATIONAL ISSUES IN DEVELOPING A.I.D. POLICY REFORM PROGRAMS

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This paper discusses some key operational issues in the process of planning, designing, and negotiating policy reform programs based on responses to a Mission Director's Questionnaire, interviews, and other information sources. This experience is synthesized for the benefit of those who are involved with developing A.I.D.'s policy-based programs.

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## EXECUTIVE SUMMARY

This paper discusses some key operational issues involved in the process of planning, designing, and negotiating policy

reform programs based on A.I.D. experience. The purpose of the paper is to synthesize some of the Agency's recent experience in the policy reform arena. The operational issues which are covered are those that can be discussed generically, irrespective of geographic region or type of reform program. The topics included are:

1. approaches to selecting policy reform objectives
2. analytical requirements for designing programs
3. coordinating with the IMF and the World Bank
4. designing conditionality
5. utilizing A.I.D. resources in packaging reforms
6. sources of A.I.D. influence for obtaining negotiation agreements
7. negotiation strategies and styles

The paper is based on information derived from a questionnaire sent out by the A.I.D. Administrator in 1987 to a sample of past and present Mission Directors. The questionnaire asked them to comment on their experience in conducting and overseeing policy negotiations for macroeconomic and major sectoral reform efforts. Additional information was derived from a number of personal interviews conducted with individuals currently assigned to A.I.D./Washington who were directly involved in the design and negotiation of policy reform programs (see Appendix A). The paper also draws on several major A.I.D. and World Bank reviews and evaluations of policy reform experiences.

The following sections provide some of the major findings on each topic covered based on these information sources.

#### Approaches to Selecting Policy Reform Objectives

The means by which A.I.D. selects policy reform objectives to support in a particular country have been found to have implications for the degree of support those objectives will receive from the host country government and its people, the sustainability of the reform program based on those objectives, and the tenor of bilateral relationships between the the U.S. Government and the host country itself.

In many cases, A.I.D. has followed the lead of the World Bank or the IMF in choosing policy priorities, the main rationale being that an IMF-supported economic stabilization program, and/or a World Bank structural adjustment program is already in place in the host country. A U.S.A.I.D. Mission can act as a catalyst for program implementation by focusing A.I.D. resources in a sector targeted for reform in which it has comparative expertise vis-a-vis the World Bank or the IMF. However, experience shows that when A.I.D. follows the lead of other donors, it is important to demonstrate that there is some further additionality the Agency can provide as a means of increasing its own standing in the policy dialogue arena. Furthermore, A.I.D. still needs to conduct its own independent analyses and assessments of country economic problems and

should be able to interpret the validity of World Bank and IMF analyses based on its long-term, in-country perspective.

A.I.D. frequently takes the lead over the World Bank and the IMF in designing reform objectives when the focus is on sectoral concerns, and the sector is one in which a given U.S.A.I.D. mission has established itself and has experienced staff. However, it can be more difficult for A.I.D. to take the lead in setting the agenda in countries where U.S. bases are located, or where there are major U.S. foreign policy objectives.

The best performance in policy reform programs has been achieved when there is sufficient host government concurrence on what the major obstacles are to economic growth in the country, and on what steps should be taken to remove those obstacles. Evidence shows that concurrence is most readily achieved where governments have themselves, or with supportive donor assistance, conducted analyses of their own economic situations and then prioritized and selected those problems to be tackled under a reform program.

#### Analytical Requirements for Policy Reform Design

A.I.D. experience with analytical requirements for macroeconomic reforms indicates that assistance in the design of a realistic program entails a thorough understanding of current economic policies and their implications for the economy as a whole, as well as the existing legal, judicial, and economic regulations which also have an impact on the effectiveness of these policies.

Evaluations and reviews of policy-based, non-project assistance conclude that chances of success are much greater when reform measures take into account the likely social impacts and their distribution among the population. Political and institutional analysis is also required as a means of determining the degree of support for reform programs prior to implementation.

The biggest constraint to conducting such analyses in support of program design has been the lack of reliable data. Analytical studies that are conducted are found to be more persuasive in promoting policy change when such analyses can forecast a variety of scenarios in which alternative reforms are implemented, and in which no reforms are undertaken.

#### Donor Coordination Issues

There is a consensus that donor coordination in support of policy reform programs is both important and necessary; however, the form and extent of that coordination is still subject to debate. In addition to the added leverage which is achieved through donor agreement on reform objectives and conditionality, donors themselves benefit through a division of labor based on institutional strengths and abilities. Donor

coordination along operational lines can simplify the administrative process for those countries involved in major reform programs.

Potential problems involve the extent of A.I.D. support for reform objectives and conditionality in concert with other donors, particularly in respect to fulfillment of conditionality. U.S. Government political interests and differences in donor evaluation of host country implementation progress can complicate coordination efforts. To counteract any problems and to obtain the most beneficial results from coordination, there must be constant interaction and planning and evaluation with all donors and the host government principals who will be involved in program decision-making and implementation.

### Designing Conditionality

Who sets the conditions for disbursement of funds (or other resources) and the actions to be taken; the number and specificity of actions to be taken; the flexibility with which those conditions are designed, and the time period specified for completion of actions were all posed as important issues which have direct bearing on the successful implementation of a reform program. Both A.I.D. and World Bank experience demonstrate that unless host governments are closely involved in the process of setting benchmarks for actions to take, the tendency is that they will not fully understand the implications of specific actions and conditions for disbursement. On the Agency side, benchmarks should be designed so that they can be easily monitored during the program, and clearly linked to government performance.

Most U.S.A.I.D. Missions underestimated the time requirements to enact reform programs. Changes in macroeconomic conditions or in political conditions can reduce government ability or willingness to continue the implementation of certain reforms. This suggests that greater flexibility is needed in setting timetables for implementation benchmarks, and for reformulating benchmarks.

### Utilization of A.I.D. Resources

Cash Transfers, Sector Assistance Programs, PL 480 Food Aid Programs, and Commodity Import Programs all represent resources the Agency has utilized in packaging non-project assistance programs to support policy reforms. Some of these are more appropriately used than others, depending on the goals of reform program and sector, and the degree of flexibility needed.

ESF Cash Transfer grants are particularly useful when budgetary flexibility is needed to support major structural and sector reforms, and for economic stabilization programs which usually need a quick disbursing mechanism due to the severity of debt problems. However, cash transfers should be regarded

as a short-term resource to be replaced by the more usual forms of assistance for sectoral development. This is an important view to take, especially in countries where the U.S. Government has major foreign policy objectives. Otherwise, the overwhelming tendency of the recipient is to view the resources as either rent payment for bases, or a payment for U.S. foreign policy support.

Sector Assistance Programs provide grants for long-term economic development in a particular sector. Disbursement of funds is usually conditioned on government performance under a performance-based system.

Among the PL 480 Food Aid Programs, Title I and Title III resources are the best suited for policy reform programs.

While some analysts maintain that they are more appropriately limited to reforms in the agricultural sector when utilized to support agricultural price reforms or food security efforts, these programs are also supporting privatization and trade initiatives through the promotion of liberalization of markets, the development of private sector food processing industries to aid increases in exports, and the like. PL 480 programs also have a valuable use when targeted to population groups that may be harmed by structural adjustment programs.

Commodity Import Programs have less flexibility than other A.I.D. resources, and hence their use as a policy reform resource is more limited. Their utility is in agricultural and industrial sector programs where they can provide resources to stimulate small and micro-enterprise development, agricultural processing industries, and the like. A major drawback to using CIPs as a resource for promoting policy reform programs are the many burdensome procurement regulations and requirements.

#### Sources of Influence

There is general concurrence that the level of A.I.D. resources offered is a powerful inducement for governments to accept the idea of reform implementation, particularly if assistance is in the form of cash transfer grants. However, experience shows that financial resources alone are not a sufficient tool to gain agreement. A.I.D. has other resources to offer which can be valuable inducements in the absence of significant financial assistance.

Sound technical arguments based on a careful analysis of the country situation, and the provision of technical assistance for implementing reform programs, can be welcome resource additions. A final source inducement is the extent to which the Mission portfolio can be brought to bear on country macroeconomic and sectoral problems in support of policy reform programs.

#### Negotiation Strategies and Style

Negotiation strategies, style, and cross-cultural knowledge are absolutely critical to the outcome of major policy reform negotiations. The key strategy featured in all the success stories reported by U.S.A.I.D. Missions is based on the development of a consensus of opinion between A.I.D. and the influential individuals within the host country government. Consensus is best achieved where the government's active participation was sought from the beginning in identifying issues, formulating solutions, and designing the program. In the long term, experience shows that A.I.D. must be consistent in its views, and prepared to knowledgeably discuss reform issues backed by qualified technical staff. Sensitivity to, and knowledge of, culturally-based negotiating styles is also an important key to negotiation success.

## 1.0 INTRODUCTION

Programs for promoting macroeconomic and sectoral policy reform have become a major element in A.I.D.'s strategy for fostering sustained, broad based economic growth in developing countries worldwide. Concurrence has been gained on the need for promoting policy reforms both as a tool to remove major obstacles to growth, and to stimulate more efficient resource allocation. At the same time, the Agency has become increasingly aware of the complexity of the task involved in developing such programs.

This paper discusses operational issues involved in the process of planning, designing, and negotiating policy reform programs. It identifies what some of those major issues are, and discusses lessons that A.I.D., and to some extent the World Bank, has learned from policy reform activities in Central America, Asia, the Near East, and Africa. Lastly, it provides some suggestions for approaches to take, based on instances of successful experiences.

The issues covered in this paper are those that can be discussed generically, irrespective of geographic region or type of reform program. Illustrative examples are provided from A.I.D.'s experience in sector-specific or macroeconomic reform programs from different Missions. The paper does not, however, cover the substance of policy reform issues other than through an operational point of view. Nor does it cover impact issues arising from the implementation phase of policy reform programs. The topics covered by this report include:

1. approaches to selecting policy reform objectives
2. analytical requirements for designing programs
3. coordinating with the IMF and the World Bank
4. designing conditionality
5. utilizing A.I.D. resources in packaging reforms
6. sources of A.I.D. influence for obtaining negotiation agreements
7. negotiation strategies and styles

The intended audience of this report are those individuals in A.I.D. who are directly involved in policy-based assistance, and who may profit from a distillation of Agency operational experience in the policy reform arena, as well as those who, while not directly involved, are nonetheless interested in these issues.

The primary information source utilized in this report is a 1987 questionnaire sent out to past and present Mission Directors on their field experience in conducting and overseeing policy negotiations for macroeconomic and major sectoral reform efforts.<sup>(1)</sup> Twelve individuals responded to the questionnaire and their remarks provide invaluable insights and lessons learned. At the same time, these written responses raised new questions not answered completely by the existing literature. Therefore, interviews were conducted with a number of individuals, currently assigned to AID/Washington, who were directly involved in the design and negotiation of policy reforms (see Appendix A). These personal interviews provided a sense of the challenges and difficulties involved in undertaking policy reform programs and the most detailed information on positive strategies and tactics which Missions may learn from. Additional information was derived from a review of selected A.I.D. and World Bank documents which review and discuss policy reform experiences. However, the primary perspective of this paper is that of A.I.D., based on A.I.D.'s operational experience in planning, designing, and negotiating policy reforms.

## 2.0 APPROACHES TO SELECTING POLICY PRIORITIES

The means by which A.I.D. selects policy reform objectives to support in a particular country have been found to have implications for the degree of support those objectives will receive from the host country government and its people, the sustainability of the reform program based on those objectives, and the tenor of bilateral relationships between the U.S. Government and the host country itself.<sup>(2)</sup>

U.S.A.I.D. Missions have utilized a number of approaches for selecting policy priority areas to support. While the GAO's 1986 review of U.S. foreign assistance for economic reforms concludes that A.I.D. generally utilizes its own internal studies and reports, other U.S. agency documents, and World Bank analyses, interviews conducted for this paper revealed a more dynamic process. Other methods that A.I.D. has utilized include close consultations with the World Bank and the IMF, and joint working sessions and active discussions with host country officials and technicians.

### 2.1 Following the Lead of the World Bank or the International Monetary Fund

Frequently, A.I.D. has elected to go along with, or



"shadow," the IMF and the World Bank in choosing policy priorities for shaping its own programs with host countries. One of the rationales for following this approach is that an IMF stabilization program or a World Bank Structural Adjustment Lending (SAL) program is already in place in the host country, and if the analysis of basic economic problems has been correct, A.I.D. can help support government implementation of the set of reforms specified under that program. For example, a U.S.A.I.D. Mission can act as a catalyst for program implementation by focusing Agency resources in a sector targeted for reform in which it has comparative expertise vis-a-vis the World Bank or other donors.

#### 2.1.1 Advantages

There are several major advantages to this approach. One is that in following the pre-set reform objectives of the World Bank and/or the IMF, there is an assurance that donors are not working against one another and that there is then a consistent program of support for a given country. Secondly, with respect to a country's economic problems, the analytical work for determining the need for a particular reform and establishing an overall strategy will have already been done, and A.I.D. can utilize. This is a useful approach for countries in which A.I.D. has a comparatively small program, and hence, fewer resources for conducting its own analytical work and less influence on its own with the host government for gaining reform compliance.

#### 2.1.2 Caveats

There are certain issues to be aware of in following the above strategy. Respondents stated that even if the Agency chooses to follow World Bank or IMF programs, U.S.A.I.D. Missions still need to demonstrate that there is some additionality they can provide. It is important that A.I.D. enhance its position in the policy dialogue arena in other ways to increase its own standing, particularly when the financial resources it can provide are low compared to other donors.

One possibility mentioned by numerous respondents is to provide additional analytical data from studies conducted in related projects from the Mission portfolio, sector assessments, social and institutional profile reports, or from CDSSs, which host country technicians or politicians can utilize to buttress their arguments for needed reforms. Another possibility is to provide carefully targeted technical assistance to the government during the implementation process.

Typically, the World Bank and IMF staff will come to the country only to negotiate a program, and then periodically to evaluate its progress in terms of compliance. Yet recent World Bank analyses of their experience with structural adjustment lending programs indicate that assistance with implementation is often necessary (World Bank, 1986, 1988; Thomas, 1988). The in-country presence of its overseas Missions puts A.I.D. in a

favorable position to assist the host government in implementing a program, or to provide advice as needed or requested.

Furthermore, A.I.D. needs to conduct its own independent analyses and assessments of country economic problems. There are drawbacks to accepting policy reform objectives based on other donors' analyses. Respondents to the Mission Directors Questionnaire and interviewees for this paper uniformly noted that while these analyses can be extremely helpful, it is necessary that U.S.A.I.D. Missions understand their findings and implications. A.I.D. should be able to interpret the validity of these analyses based on its Missions' long-term, in-country presence and knowledge of what can be achieved in the local environment, particularly from an institutional and socio-political point of view.

Several respondents commented that World Bank and IMF analyses can be flawed, or ignore important sectors where attention should be focused. For example, the IMF does not conduct related institutional analysis or assess the distributional impacts of its programs on sectors of the society. These types of analyses are only beginning to be done by the World Bank and by A.I.D. itself. Respondents concluded that other donor analyses of host country economic situations should be accepted as the focus and rationale for policy reform programs only after careful evaluation by the U.S.A.I.D. Mission.

Perhaps the greatest drawback to focusing on reform objectives which have been specifically formulated by the IMF or the World Bank is that in doing so, there is less guarantee of true country commitment to implementing those reforms, irrespective of the fact that agreements have been signed. Although several recent World Bank reports (1986, 1988) note the need for employing a more collaborative approach with governments to determine policy priorities and define agendas, the analytical work and selection of agendas is still primarily done by the Bank itself and then presented to governments for discussion and agreement. Similarly, the IMF conducts its own analyses and formulates programs for recipient countries to follow.

A particular problem with respect to following the lead of the IMF is that its main objective and focus is setting a country on the right path in order to pay its debts via economic stabilization programs. Frequently these programs are not long-term, or growth-oriented. In fact, a common criticism of the Fund's approach has been that it is fiscally so stringent that it does not permit growth. What A.I.D. has frequently done, is to provide balance-of-payments support to assist governments in paying back external loans under IMF-supported programs, and in return to require growth-oriented policy reforms.

## 2.2 When A.I.D. Takes the Lead

A.I.D. most frequently takes the lead over the World Bank and the IMF in designing reform objectives when the focus is on sectoral, rather than macroeconomic concerns, and the sector is one in which A.I.D. has the comparative advantage by virtue of its long-term experience in working in it. For example, in Bangladesh, A.I.D. has had experience in food policy programs since the 1970's. The World Bank and the IMF look to A.I.D. to continue to take the lead in food policy reforms and support A.I.D.'s work in the sector via conditions set in their programs for Bangladesh.

This is not to say that A.I.D. has not and cannot take the lead in macroeconomic reform programs. In Central America and the Caribbean, A.I.D.'s contributions to assisting macroeconomic policy reform efforts clearly dominate. Foreexample, in Honduras, A.I.D. continued working with the Government on a macroeconomic reform program after the IMF ended its program due to Government non-compliance. The U.S. Government decided to continue providing balance of payments support under an ESF program because of political concerns for Honduras, and for Central America in general. A.I.D. was able to influence the Government to continue undertaking some macroeconomic reforms, even in the face of Honduran assurance that cash grants would be forthcoming given the objectives of U.S. foreign policy for Central America. However, overall progress with implementation of macroeconomic reforms has been very slow, and this can be said to be due in good measure to the fact that the Honduran Government was well aware that it would likely receive financial resources from the United States regardless of the degree of compliance (Robert Nathan Associates, Inc., 1988). Specifically, it took a number of years for A.I.D. to convince the Government to legalize and begin to expand the scope of the parallel foreign exchange market, a move which would contribute significantly to the country's economic growth.

### 2.2.1 Advantages

A.I.D. has the comparative advantage for taking the lead for sector reforms if the sector is one in which a given U.S.A.I.D. Mission has established itself and has the experienced staff. In these cases, analytical work done in conjunction with project assistance and/or sector assessments for CDSSs can provide the means for gathering data important to the reform of that sector. For example, in the Mali Economic Policy Reform Program, the Mission was already aware of major problems in the public sector economy which would hinder the proposed private sector development focus for the program, or indeed, for any programs. It was obvious to the Mission that money for personnel in ministries was taking most of the country's financial resources, leaving almost none for operational expenses and programs in general.<sup>(3)</sup> The Government of Mali was well aware that something had to be

done, and in conjunction with A.I.D. it devised the Voluntary Early Departure Program for government civil servants. This program became one of the major foci in the overall economic policy reform program.

The analytical work and experience of U.S.A.I.D. Missions in a given country and sector or sectors, as briefly illustrated by the USAID/Mali example, is what gives A.I.D. the comparative advantage in setting the reform objectives over other donors and international lenders. However, it is important to add here that analytical work specifically targeted to policy reform issues, and beyond that which is done in fulfillment of projects, is frequently necessary for the formation of sound policy reform programs.

### 2.2.2. Caveats

Politically, it can be more difficult for A.I.D. to take the lead in setting the agenda in countries where U.S. bases are located or where there are major U.S. foreign policy objectives. Examples are Honduras, the Philippines, and Egypt. It is difficult to obtain compliance for what are often politically, economically, and socially risky reform programs when Governments are assured of receiving Economic Support Fund (ESF) resources by reason of U.S. foreign policy objectives. The above referenced mention of A.I.D.'s experience with policy reform in Honduras provides a good illustration of these problems where at times A.I.D.'s decision-making authority was overruled by higher levels of the U.S. Government (Robert Nathan, 1988). A.I.D. credibility as a major actor in leading reform programs suffers in such instances.

The experience of A.I.D. and the World Bank indicates that the best performance in policy reform programs is achieved when there is some sufficient level of concurrence within the host country on what the major obstacles are to economic growth, and on what steps should be taken to remove those obstacles (Block et al., 1988; RONCO, 1986; World Bank, 1986, 1988). Several interviewees also stated that difficulties in overcoming problems related to policy reform programs where U.S. foreign policy is involved can be obviated to some extent where concurrence is reached with influentials in governments in question over reform objectives and strategies. For example, in Egypt, a large ESF cash grant recipient, A.I.D. has both macroeconomic and agricultural sector policy reform programs. The Egyptian government does not agree with many of the proposed reforms under the macroeconomic program, nor on an adequate rate in the pace of overall reforms. The GOE has therefore not implemented many of the recommended reforms. Furthermore, because the ESF monies for Egypt are given in large part for political reasons, the Government feels confident that it will eventually receive these financial resources. In contrast, there was a consensus of views on the need for agricultural sector reform between Egypt and the international community of donors. Egypt is sensitive to the

fact that while it was once a net exporter of food, it has become a net importer, and so has begun implementing the agricultural reform program. (4)

A major issue then becomes, how can U.S.A.I.D. Missions reach agreement with governments on important macroeconomic or sector-specific problems, and in particular when the country is of strategic political importance to the United States, which can then form the basis of a supportable policy reform program? The section below provides some approaches.

## 2.3 Following the Lead of Host Governments

### 2.3.1 Advantages

Concurrence is most readily achieved where governments have themselves conducted analyses of their economic situation and then prioritized and selected those problems to be tackled under a reform program. Several Mission Director respondents and interviewees emphasized that it is often impossible for a government to accept and to convince its citizens on the need for major reforms unless it is convinced itself of the serious necessity for implementing those changes.

There are numerous reasons why governments are reluctant to implement policy reforms programs. Their implementation often engenders political difficulties for those in power because of short- and medium-term negative impacts. For example, in Zambia, confusion over the deregulation of maize prices and the implementation of other related reforms, led to severe shortages in the availability of maize meal, a basic consumer staple. These shortages, followed by a 120% increase in the price of maize meal in 1986, led to rioting in which at least 15 people were killed (see Wedemann et al., 1987).

Problems also arise because of the entrenched interests of powerful groups of society who benefit from the status quo (see Grindle and Thomas, 1988). Grindle and Thomas (ibid) noted furthermore, that the more fragile the government, the greater attention to maintaining the regime at the expense of other objectives. Knowledge of negative experiences with implementing IMF and World Bank programs elsewhere in the Third World has also created unwillingness on the part of some governments to implement major reforms. Government fear and unwillingness to chance putting such a process in motion, can be less of a barrier if it has identified reform objectives based on its own analysis of the country economic situation.

U.S.A.I.D. Missions have experimented with various approaches to encourage host governments to specify their own objectives and priorities where government reform agendas were not already established. Examples of some of these are found in Annex 3. Most of these approaches have several factors in common which may underlie their comparative success obtained later in the implementation process. First, these U.S.A.I.D.

Missions went in to talk with host governments with an attitude which said, "we want to support you in your agenda." They did not come in trying to impose a preformulated agenda based on Agency-wide reform priorities and theories. Secondly, these Missions had conducted their own analyses of country economic problems and demonstrated that they were knowledgeable; but more importantly, they were ready to discuss these problems with host governments in a collaborative manner.

### 2.3.2 Caveats

While an approach of encouraging host governments to set their own policy reform agendas is important to setting a positive tone for later negotiations and implementation, it has been found that this approach often necessitates intensive collaborative work as a support to this process. Collaboration has been worked out through joint working groups as well as through more "behind-the-scenes" Mission work to further enhance the impression that governments are setting agendas on their own. The form of collaboration taken should be sensitive to the current political situation and the status of bilateral relations with the U.S. Government.

All U.S.A.I.D. Missions which have chosen to support host government reform priorities or to work in a more collaborative style in general, are in agreement that it demands intensive involvement with public officials and ministry technical staff, and hence a substantial investment of time on the part of Mission principals. This is particularly so in countries where the necessary analytical skill base in public institutions is weak. However, this can be seen as a valuable opportunity to provide technical assistance in policy analysis and development in furtherance of a country-led policy reform process.

Furthermore, Mission principals must often work to locate progressive, yet influential individuals within governments to begin working on agendas because of the political factors mentioned earlier which frequently inhibit the initiation of a reform process. In these situations, building a broader consensus for programs within governments may take considerable time. Yet the necessity for undertaking this kind of consensus building process for reform programs frequently arises no matter which actor takes the lead initially.

Finally, supporting host government priorities entails continual discussions, not only with host country officials, but also with the World Bank and the IMF to gain their concurrence and support for the policy reform objectives selected.

This approach to developing reform agendas is clearly the most staff-intensive for A.I.D. of the three approaches discussed above. However, this preliminary review of Agency experience with policy reform programs strongly suggests that U.S.A.I.D. Missions who choose a more supportive and

collaborative route, have overall had greater success in seeing reform programs implemented, and experienced better relations with host country officials.

### 3.0 ANALYTICAL REQUIREMENTS FOR POLICY DESIGN

#### 3.1 Macroeconomic Analysis

Several of the respondents to the Mission Directors Questionnaire noted that earlier in A.I.D.'s recent history of supporting policy reform programs, it was the perceived wisdom that the more macroeconomic the focus of a particular reform, the more A.I.D. played a supporting role to the World Bank and IMF. U.S.A.I.D. Missions rarely had the professional staff to weigh in on macroeconomic issues. However, through recent processes of staff and contractor hiring, this is becoming less the case. In some countries, A.I.D. has become a respected source of macroeconomic analysis for policy design.

A.I.D. experience with analytical requirements for macroeconomic reforms indicates that to assist in the design of a realistic program entails a thorough understanding of current country economic policies and the implications of these policies for the economy as a whole. Concurrently, an analysis of what one respondent referred to as the "micro forces," namely, the existing legal, judicial and economic regulations, is important, as these regulations have an impact on the effectiveness of more broad-based economic policies and are often contributing causes to a country's economic problems. (5)

In the case of sectoral policy reform, U.S.A.I.D. Missions have generally focused on sectors in which they have had a history of experience and the analytical requirements are more obvious. At this time, the majority of A.I.D.'s assistance to governments in the policy reform arena is sectoral, and focused mainly in the agricultural sector. For example, the African Economic Policy Reform Programs primarily deal with agricultural policy reforms. However, as the recent DAC (1987) evaluation of non-project assistance points out, effective sectorally oriented assistance still requires rigorous technical and economic analysis to determine what institutional and other related reforms may be required as well.

Complicating A.I.D.'s ability to conduct thorough analyses for reform programs, whether sectoral or macroeconomic, is that macroeconomic, as well as social and institutional data, frequently are either lacking or unreliable in many countries. Such data would assist countries and their donors not only to assess the probable program impacts, but also to design more realistic reform programs.

For example, under a cereals marketing liberalization program in Mali, agricultural sector policy reforms were undertaken to legalize private sector marketing of grain offered for sale by farmers, and official producer prices for

sorghum, millet, maize and rice paddy were periodically raised according to a set schedule over six years beginning in 1981. Specific objectives of these reforms were to increase farm output and income, and to increase food security of staple grains for consumers. An impact assessment of this program (Wilcock, Roth, and Haykin, 1987), showed that some gains were realized in greater market efficiency by reducing the transaction costs for producers and consumers through the legalization of private cereals trade, thus decreasing difficulties previously faced by consumers in acquiring grain. However, the team was unable to establish a link between increases in cereal production and policy reforms.

The report concludes that farmers' incomes probably increased, but that it is not possible to verify whether these increases were the result of price incentives or major improvements in weather following the end of the drought years. For the first four years of the cereal liberalization program, monitoring teams had no usable basic data on the private cereals market, or on actual producer prices to assess the impact of the program on farmers income.

In 1985, a monitoring-related research activity was initiated through the Michigan State University-U.S.A.I.D. "Food Security in Africa" Cooperative Agreement. (6) The research activity was implemented as a joint project with Mali's National Commission for the Oversight and Evaluation of the Food Strategy (Dione and Staatz, 1987) to "develop a better understanding of the structure, conduct and performance of the private market for domestic coarse grains...(ibid, p. 12)." In contrast to one of the major assumptions of the Cereals Market Restructuring Project, which was that all farmers are net sellers and that therefore higher grain prices would help all farmers, a principle finding of the research was that not all farmers were positively affected by the price support intervention, and some were actually hurt. An analysis of farmer transaction data for two of Mali's rural development zones found that 39% of the farmers sampled were actually net purchasers of grain. Overall, those farmers who most benefitted from the price support effort were fully and semi-equipped farmers of the cotton producing southern zones, while those who were hurt were large numbers of semi-equipped farms, and almost all no-equipped farms in the non-cotton producing zones. These data also indicate that complementary development interventions are needed for more farmers to benefit from these grain price reforms.

Data and analysis from this project now directly flow to the program's policy makers through the USAID representative to the program's technical committee, and are utilized in the second phase of the Cereals Market Restructuring Project. This example highlights the need for microeconomic, as well as macroeconomic data, and how these data can be used to design programs, test program assumptions, and to create baselines for monitoring impacts. It also indicates the need to undertake policy specific analysis. As reported below in the next



section, similar efforts to collect socio-economic data systematically at the field level for these program purposes have increased. An alternative is to utilize longitudinal data which has been collected for other purposes from which to measure impacts and redesign programs as needed.

### 3.2 Social, Institutional, and Political Analysis

There has been a marked tendency in the design of both A.I.D. IMF, and World Bank policy reform programs to concentrate less attention on social, institutional, and political analysis. Yet, as more than one interviewee commented, all reform programs are inherently political and require an understanding of social realities and institutional norms and workings in order to be successfully negotiated and implemented. The DAC evaluation of non-project assistance concluded that effective support of major reforms requires "a deep understanding of the structure and evolution of the economy and of the country's policies and institutions." Furthermore, they noted that chances of success are much greater when reform measures take into account not only the purely economic factors, but also the likely social and political impacts, along with some consideration for minimizing hardships and dangers.

As experience in implementing major policy reform programs has grown, all donors have become increasingly aware of the social and political impacts that may occur, especially in the short and medium term during program implementation. Enough analytical and evaluative work on the distributional impacts of policy reform has been done at this time so that we can now fairly well predict that certain types of reforms will have particular negative or positive impacts on particular groups of people, based on the structure of poverty, and on the country economic and political situation at the time of implementation. (7)

For example, the elimination or reduction of food subsidies is a major component of many adjustment programs. There is substantial evidence at this time which shows that while food-surplus rural households will gain from such measures, food-deficit rural households and urban groups will lose, at least in the short term. Reductions in government expenditures are also common to many structural adjustment programs. Public service provisions in health and education often deteriorate as a result, which can have long-term negative consequences on the poor in particular (see Hood, McGuire, and Starr, 1988).

The severity of program impacts can be mitigated to some extent through careful targeting of social programs. In practice though, targeting of subsidies for those who will be most negatively affected and least able to protect themselves is difficult to achieve. Predicting which groups will be adversely affected and what type of support program will be

required entails a knowledge of both the incidence, nature, and location of poverty and other disadvantaged groups in that country. It also requires knowledge of which groups clearly benefit from current policy arrangements, and who may become disadvantaged as a result of the proposed reforms.

Again, though, lack of sufficient data restricts the design of policy reform programs which are better informed about these issues. Major efforts are underway by the World Bank and UNDP to conduct baseline socioeconomic studies in 17 African nations to address this lack of data and to aid the systematic inclusion of social issues in the design of structural adjustment programs (see World Bank, 1988). Other donors, including A.I.D., are beginning to move in this same direction. Guidance has been developed on information planning for policy reform programs (Hermann, 1986), and a number of African Economic Policy Reform programs include funds for gathering socioeconomic data.

While not all countries are equally concerned with the humanitarian aspects of policy reform implementation in the short-run, A.I.D.'s acknowledgment of the issues is usually a welcome sign of concern and respect. It is also true that political reactions to a lack of sufficient attention to distributional issues can, and has, halted the implementation of reform programs.

To illustrate, in 1985 the Government of Guatemala attempted to raise taxes and to stop subsidies for public transportation (among other measure under an IMF-supported stabilization program, as correctives for its growing economic crisis. Immediate public outcries and street rioting ensued, and the Government dropped these attempts at reform. The IMF discontinued its program with Guatemala. After the Christian Democrats won the national election in late 1985, it put together a new program in conjunction with A.I.D. The newly elected Government moved quickly to prevent negative political reaction with the announcement of social "safety net" programs.

While it is not clear how helpful the safety net programs actually were in cushioning the effects of reform on the poor, this public announcement helped gain wider support for new reform programs at the time of implementation. (8)

Political and institutional analysis is also required as a means of determining the degree of support for reform programs prior to implementation. (9) Interview respondents reported that U.S.A.I.D. missions can be "blind sided" if they do not understand who the real decision-makers and power-bearers are, both in the public and private sectors, and how decisions are made when there will be obvious major economic and political consequences. (10)

The Mission Directors Questionnaire responses indicated that fear of political, and to some extent social costs, is the most important constraint against prompt and effective policy reform implementation by host governments. Programs have to be

tailored according to the political environment of the current government in power before agreement is reached. However, as mentioned previously, government-conducted analysis and agenda setting, well supported by the U.S.A.I.D. Mission, has been very effective in overcoming some political apprehensions.

U.S.A.I.D. missions typically do not house political and institutional analysts. However, consultants with long-term in-country experience can assist in carrying out necessary analysis specifically tailored to features of proposed reform programs well in advance of serious dialogue on program conditionality with host governments. It has also been suggested that U.S. Embassy political analysts begin working with Missions on these issues in countries where significant reforms will be proposed. (11)

### 3.3 Conducting and Presenting Analytical Work for Policy Reform

Several Mission Directors have made the case that in conducting any analytical work in support of reforms, it is helpful for host government officials to be presented with a variety of scenarios. Events should be forecasted in which no reforms are undertaken, and in which alternative reforms are implemented. Forecasting alternative scenarios requires substantially more time invested in analytical work, yet if undertaken and well presented, can provide the basis of a learning process for both governments and A.I.D. This also yields stronger arguments for technical staff members to present to ministry politicians. For an illustration of this tactic as implemented in Madagascar, see Appendix C.

Conducting a joint analysis of alternative reform programs and their probable impacts can provide additional training to further increase host country analytical capability, and to create a sense of shared commitment and support for tackling serious macroeconomic or sector specific problems. In either case, such analyses are most effective when they engage the participation of the relevant host country institutions, thereby internalizing the implications of the data and analyses themselves. Most interviewees for this paper are in concurrence with this point.

However, the example from Madagascar clearly points out that persuasive analytical studies to promote the idea for the need of policy change, are not sufficient in themselves. Such issues as timing of the presentation of analytical findings, presentation style, and coordination with, and support of influential backers are equally important considerations in the utilization of analysis to affect policy change.

## 4.0 DONOR COORDINATION ISSUES

There is a consensus that donor coordination in support

of policy reform programs is both important and necessary; however, the form and extent of that coordination is still subject to debate. (12) In what ways can coordination be most beneficial, or, conversely, problematic? Some of the pros and cons of donor coordination were discussed in Section 2.0 above, specifically in respect to selecting policy reform priorities, and the reader is referred back to that discussion. The discussion that follows focuses on coordination issues with respect to benefits to donors and host governments, and on coordinated donor support for conditionality measures.

#### 4.1 Benefits to Coordination

A.I.D. frequently supports reform objectives and conditionality of World Bank and IMF economic stabilization and structural adjustment programs. Experience has shown that maximum leverage to promote reform implementation is achieved by employing similar conditionality, and a more logically consistent reform program is supported.

In addition to added leverage, another major benefit to coordination noted by most respondents is that which is experienced by donors themselves by virtue of employing a division of labor. Formal coordination often takes place with a division of labor based on institutional strengths and abilities. For example, in Morocco the World Bank had the greater analytical capability for devising needed trade policy and finance reforms, while the U.S.A.I.D. Mission had greater strengths in developing technical and institutional capacities for host government implementation of reforms. The Mission's other strength was in the analysis of the dryland agriculture subsector and the population sector, whose results the World Bank subsequently followed.

Informal coordination with the World Bank takes place in almost all U.S.A.I.D. Missions in respect to the utilization of each other's country and sector-specific analytical work, and other special topic studies and evaluations. This type of coordination obviously yields a savings of donor resources on each side.

The DAC (1987) evaluation of non-project assistance related that in instances where two or more donors are sponsoring activities in the same sector, a lack of donor coordination can result in "a multitude of implementation institutions, an overloading of institutional capacities, policy indecision or inconsistency, donor procurement and programming requirements can actually complicate the host country's problems, may certainly overload administrative capacity, and even reduce general efficiency and program effectiveness." The DAC report suggests that donor procedures and requirements be standardized to the extent possible. Donor coordination along operational lines can simplify the process for those countries involved in major reform programs.

## 4.2 Potential Drawbacks

Other issues involve the extent of A.I.D. support for conditionality in concert with other donors. Until very recently (1987), the Kemp-Kasten Amendment prohibited A.I.D. from conditioning disbursements of funds solely on the basis of requirements of multilateral institutions, specifically those of the IMF and the World Bank. The amendment did allow A.I.D. to utilize the same or similar conditions if, upon undertaking its own analyses, a case could be made for doing so. One of the major arguments against the use of strict cross-conditionality, is that if conditions are not met by the host government, release of funds may be held up indefinitely by all donors. However, in some countries political realities and bilateral relations with the U.S. Government may dictate that A.I.D. do otherwise.

One potential drawback to close coordination with donors is the possibility of over-rewarding for a given action or set of actions. The Pakistan Mission was, in 1987, reportedly examining this as a potential problem with the World Bank and the Asia Development Bank in the irrigation, agriculture, and energy sectors.

To prevent the possibility of the above scenario or other problems from occurring, constant interaction with all involved donors is of the utmost importance, both in Washington, D.C. and especially in the host country itself. These communications are more effective when they include the range of public officials and technicians in the relevant ministries and governing bodies that will be involved in program decision-making and implementation.

Several U.S.A.I.D. Missions in Central America noted that intensive discussions with IMF staff were at times necessary in order to achieve consensus because the IMF was not always willing to take a long-term development perspective or to support such a perspective. This was discussed in section 2.0 above in respect to problems associated with following the lead of IMF. Achieving a consensus with other donors can often be extremely time-consuming, particularly where agreement on objectives is not readily achieved.

It has been increasingly recognized that close coordination with other donors and financial institutions is frequently necessary to ensure that the recipient has sufficient resources available to support the objectives of major policy reform objectives, and that mutually consistent program goals and strategies to assist the growth of a country are supported as well. Constant discussion and negotiation among all parties is clearly necessary as a means of decreasing the problems common to donor coordination.

## 5.0 PACKAGING REFORMS

## 5.1 Designing Conditionality

A.I.D. and other major donors and lenders involved in policy reform programs for the most part uniformly agree on the need for conditionality as a leverage to gain reform implementation compliance. Setting benchmarks for actions that host governments must take toward achievement of policy reforms is also a key undertaking in the process. Disbursement of A.I.D. resources is based on the fulfillment of those specified sets of actions or conditions. Who sets the conditions for disbursement and the actions to be taken; the degree of flexibility designed into the conditions; the number and specificity of actions to be taken; and the time period specified for completion of actions were all posed as important issues which have direct bearing on the successful implementation of the program.

Both A.I.D. and World Bank experience demonstrate that pressures to continue disbursements are very high, even when a government does not implement the agreed-upon measures. This is particularly the case in countries where the U.S. Government has major foreign policy objectives. Several U.S.A.I.D. Missions have had to disburse resources in the face of host government non-compliance because of decisions made at higher levels of the U.S. Government. Thus it becomes extremely important to design measures that all are agreed on, which are feasible from the standpoint of implementation, and with flexibility in mind to account for the very real possibility of changing economic or political circumstances. This is not to imply that concerted efforts at collaborative work with governments at the negotiation and design stage will guarantee implementation regardless of U.S. foreign policy objectives. It will not. However, A.I.D. experience does show that where this approach was taken in countries receiving ESF resources for overt political reasons, some modest achievements in implementation of reform measures has been achieved.

The Agricultural Policy Analysis and Planning manual (Abt Associates, 1988), in its review of A.I.D. agricultural policy reform programs, noted that both Missions and host governments encounter many difficulties when benchmarks are too general, too poorly defined, or are too far reaching. They conclude that host governments should be closely involved in identifying the measures to be taken, as they are in the best position to know which actions will have the lowest political and practical cost, and hence will be more feasible to implement. On the A.I.D. side, benchmarks must be designed so that they can be easily monitored during the program and clearly linked to government performance.

Successful instances of reform implementation are found in countries where the programs are based on a continuation of collaborative work between the host country and the A.I.D. Mission which was begun in the selection of policy reform priority areas. Benchmarks should be solidly based on those

objectives which were identified during that process. The World Bank's review of its own experience in developing benchmarks (1986) shows that unless host governments are closely involved in the process, the tendency is that they will not fully understand the implication of specific actions and conditions for disbursement. Officials then find it difficult to convince their colleagues and the country on the need to pursue implementation of the program.

Experience shows that flexibility is needed in setting time-tables for benchmarks. Changes in macroeconomic conditions or in political situations can reduce government ability or willingness to continue the implementation of certain reforms. A recent World Bank report on structural adjustment lending (1988) makes it clear that flexibility of judgment is necessary if the original requirement is no longer appropriate. If benchmarks are not met, their designers should also take into consideration that they may have been based on faulty assumptions, or without due consideration of implementation roadblocks.

The need for clear, measurable benchmarks need not necessarily conflict with the parallel need for flexibility in defining actions to be taken. Flexibility can be introduced into agreements in respect to conditions for disbursement by specifying that substantial rather than complete compliance is required. The conditionality language should also specify the need for remedial action to correct compliance should host governments fall off the course of implementation. (13) This kind of language prevents A.I.D. from painting itself into a corner. Other sources agree that benchmarks should be developed which include provisions for future negotiation or amendment.

Another issue relates to the number of conditions and actions to be undertaken under a policy reform program. While there is no optimal number of conditions to employ, a general rule of thumb echoed by most respondents and the literature on the topic suggests that in a given year of a multi-year reform program, conditions should be limited to a few important and mutually supportive actions. Some of these should be very specific, one-time-only actions which can be implemented within the year; others should be long-term in nature, with actions toward completion specified on a yearly basis.

Related advice, based on a review of several successful A.I.D. reform programs utilizing Food Aid (RONCO, 1986), admonishes donors not to introduce new actions and conditions every year. There should be continuous backing up of major reforms on a long-term basis. For every year of the program, it is best to limit the introduction of new reforms to one or two activities, and to concentrate instead on specifying further conditions or actions to be taken on reforms introduced in prior years. This advice is based in part on donor experience with the length of time it takes to implement a reform program.

Most U.S.A.I.D. Missions underestimated the time required to enact the stipulated reforms. (14) This is one reason why it is important to stipulate that substantial progress toward a major reform goal will be acceptable for disbursement, and to design benchmarks accordingly which can measure this progress. The recent (1988) World Bank report on adjustment programs suggests that timetables for implementation of actions must be realistic, particularly for actions involving institutional change or political processes, such as tax reforms, and the restructuring, liquidation, or divestiture of public enterprises. Major goals such as these can be broken down into a series of actions to be accomplished on a yearly basis.

The use of explicit conditionality for disbursing resources is not always necessary, or possible. For example, the A.I.D. Mission in Jamaica eventually turned away from its use because of the refusal of the Government of Jamaica (GOJ) to accept conditionality within the program. The 1986 and 1987 agreements stipulate only that the GOJ will remain in compliance with the objectives of the program. Funding is tied to completion of actions promised by the GOJ at the outset (Robert Nathan Assoc. 1988). Moving to a more informal system for the monitoring of program implementation improved relations between the the Mission Director and the Prime Minister, and kept the reform program going.

In Costa Rica, the Mission has effectively employed covenants to achieve reform implementation (C.D.I.E., 1988). The main difference between conditions and covenants is that covenants are agreements that the recipient governments will undertake certain actions, but the implementation of the action is not tied to disbursement of the funds. Conditions are actions which the recipient is required to take before resources are disbursed. Covenants are perhaps most effectively utilized in situations where Missions have full confidence that actions will be undertaken, and for reforms which will necessitate several years for completion.

## 5.2 Utilization of A.I.D. Resources

Cash Transfers, Sector Assistance Programs, Food Aid, and Commodity Import Programs all represent resources or tools the Agency has utilized in packaging non-project assistance programs to support policy reforms. Flexibility in respect to conditions of utilizing these resources differs considerably, with Cash Transfer Programs conferring the highest degree of flexibility and Commodity Import Programs conferring the least. Accordingly, some of these resources are more appropriately used than others, depending on the type of reform program to be undertaken and the urgency of need for support. The following discussion reports on A.I.D. experience in using each one of these resources and some of the issues relate to their use in reform programs.



### 5.2.1 Cash Transfers

Economic Support Fund Cash Transfers are currently utilized by each of A.I.D.'s geographic bureaus for macroeconomic and sectoral reform programs. There are a number of advantages to using this type of resource. Several interviewees noted that budgetary flexibility is needed to support major structural and sector reforms, and that cash transfers are particularly useful in this respect. They are also well suited to economic stabilization programs, which usually need a quick disbursing mechanism due to the severity of the debt problems these programs are designed to address. Reportedly all Central American programs utilize ESF cash transfers for this reason, although in most programs these disbursements are tranching based on fulfillment of certain conditions as discussed in section 5.1. Cash transfer programs, relative to other A.I.D. resources, are more oriented to addressing problems of economic stability and national security.

While several interviewees noted that recipients would obviously prefer cash transfers with their rapid disbursement features over other A.I.D. resources, the Agency must not appear, in the eyes of the recipient, to be utilizing them as a means of "buying reforms." Agency emphasis should, in the view of some respondents, concentrate on convincing governments of the need to implement reforms on their own. In this view, once there is some support for a reform measure, A.I.D. financial resources can help to mobilize a critical mass of opinion to support it, and then act as a catalyst to accelerate the reform program. (15) The majority view is that cash transfers should be regarded as a short-term resource to be replaced by instruments which provide assistance for sectoral development, such as the Sector Assistance Program Grant described in the following section. This is a particularly important approach to take with ESF cash transfer resources in countries where the U.S. Government has major foreign policy objectives. Otherwise, the overwhelming tendency of the recipient government is to view the resources as either "rent payment" for bases, or a payment for U.S. foreign policy support.

### 5.2.2. Sector Assistance Programs

Sector Assistance Programs are now more commonly utilized as instruments for supporting policy reform, in which grant money is provided for long-term economic development in a particular sector. Disbursement of funds in these programs is usually conditioned on government performance (see Hermann, 1985 for a discussion of performance disbursement issues). This program is currently less well known in its role for supporting policy reform, and is still being developed for these means. Unlike ESF Cash Transfers, these grants do not include structural adjustment or macroeconomic objectives. Examples include Niger's Agricultural Sector Development Grant

Program, the Philippines Agrarian Reform Support Program, and Indonesia's Agricultural and Rural Sector Support Program. One of the major strengths of this instrument is that in contrast to policy-based Cash Transfer programs, there is no direct linkage between this type of assistance and U.S. foreign policy goals.

### 5.2.3 Food Aid Programs

PL 480 Food Aid programs provide greater flexibility than Commodity Import Programs (CIPs), discussed in the following section, in respect to their utilization. However, like CIPs, they also provide commodities, local currencies generated by their sale, and saved foreign exchange. PL 480 Title I and Title III programs are both suitable for supporting policy reform programs. Title I loans are made specifically on the condition that the recipient country undertake self-help measures to improve the efficiency of the agricultural sector. Title III resources provide for multi-year food aid commitments and forgiveness of dollar repayment obligations made under Title I programs, as incentives to low-income developing countries to undertake development-oriented economic policy reforms (U.S.A.I.D., 1982).

A recent review of Food Aid programs in policy reform efforts, sponsored by the Agriculture Policy Analysis project, suggests that while food aid can be used to support broad macro-economic policy reform, it is most effective when used to support agricultural price reform or to support food security initiatives (Block, Bremer, and Hanrahan, 1988). Food aid can serve to moderate food price inflation and help to stabilize prices in agricultural sector reforms. It also has a valuable use when targeted to population groups that may be harmed by major structural adjustment programs. However a recent synthesis of key findings from evaluations of the Asia/Near East Bureaus' PL-480 Title I and III Programs (Hermann, 1989), show that self-help measures under associated reform programs have been utilized successfully to promote privatization and trade by supporting such initiatives as the liberalization of agricultural input marketing activities (the Philippines), and private sector processing, marketing, and distribution of food commodities (Bangladesh). Quite clearly, PL 480 food aid programs can and do serve a range of objectives beyond the traditional focus of agricultural sector concerns to help bring about greater efficiencies in the overall economic policy environment.

There are, however, several caveats to utilizing food aid in packaging reform programs. In performance-based disbursement programs, it has proven politically difficult to withhold food aid if government performance has been poor in meeting reform benchmarks. Because of these political difficulties, food aid disbursements have rarely been cancelled, resulting in a loss of A.I.D. credibility. For this reason, it can be an unreliable means of promoting reform. In

contrast, it was found that its use as an inducement for reform is enhanced when food aid has a high priority for the host government relative to other forms of aid.

Some of the more well known issues to be aware of in utilizing food aid are perhaps nonetheless appropriate to mention at this time. For example, depending on the amount and type of food commodity sent, food aid can have a disincentive effect on local production. The amount of food commodities may have a negative impact on prices if, in a favorable weather year, local harvests are particularly bountiful. Timing of arrival in respect to local harvests is also an important consideration if food aid is not to have a negative impact on prices received by producers. Careful design and targeting of food aid programs can prevent some of these problems.

Lastly, procurement regulations and local currency programming requirements can generate many tracking and budgetary difficulties. Some of these problems can be mitigated, as one of the Mission Director respondents suggested, by providing the host government with technical assistance in coping with the additional paperwork and monitoring requirements.

#### 5.2.4. Commodity Import Programs (CIPs)

Commodity Import Programs (CIPs) have the least amount of flexibility compared to other A.I.D. resources, and hence their use as a tool to induce policy reform is more limited. CIP programs provide commodities, of U.S. source and origin, for importers and manufacturers. The commodities provided are for development purposes, and A.I.D. pays the foreign exchange costs of procurement and shipping, thereby saving scarce government resources (U.S.A.I.D., 1985). CIPs are problematic if there is an economic crisis, because it is not a quick-disbursing resource. Therefore, it is not an effective resource for use in economic stabilization programs. (16) The DAC evaluation of non-project assistance (1987) also noted that the cumbersome procurement procedures associated with CIPs may reduce the effectiveness of this resource for dealing with urgent balance-of-payments needs.

CIPs have had greater utility in agricultural and industrial sector programs, and in macroeconomic reforms promoting private sector growth in general. For example, CIPs can provide necessary resources to stimulate small and micro-enterprise development, non-agricultural industries, non-subsistence agriculture, and agricultural processing industries. The resources provided can save valuable foreign exchange in instances where they would normally have to be imported.

A number of serious drawbacks in using CIPs for policy reform purposes were mentioned in responses to the Mission Directors Questionnaire, which verify the findings of the DAC

evaluation. One respondent noted that the procedures involved in utilizing CIPs obstruct the policy dialogue process. Host government officials find the many procurement regulations and requirements for programming local currency generated by CIPs exasperating, confusing, and overly time-consuming. These regulations are burdensome for U.S.A.I.D. Missions as well by placing a series of monitoring demands that require considerable time and expense. One respondent in particular noted that CIP-related requirements are, at a minimum, an irritant to the policy dialogue process. Such regulations as tied procurement and the requirement to use U.S. ships for transport of commodities are obvious problems. An African U.S.A.I.D. Mission respondent stated that "the high cost and slow delivery of U.S. goods must be looked at in the context of the relatively inexpensive and readily available goods from Europe and South Africa."

## 6.0 NEGOTIATING POLICY REFORM PROGRAMS

### 6.1 Sources of A.I.D. Influence

What important sources of influence does A.I.D. have for gaining host country acceptance of policy reforms during negotiation? This section discusses some of those sources which are perhaps more appropriately termed as inducements for undertaking reform.

There is general concurrence that the level of A.I.D. resources offered is a powerful inducement for governments to accept the idea of reform implementation, particularly if the resources are in the form of cash transfer grants. Most recipients of policy-based assistance are facing a tremendous amount of economic pressure. Cash transfer funds, and the foreign exchange saved from Food Aid and Commodity Import (CIP) programs, provide extremely valuable balance of payments support. This fact alone has brought many governments to the "policy dialogue table." However, both interviewees and respondents to the Mission Directors Questionnaire make it clear that financial resources alone are not a sufficient tool to gain agreement. (17) A.I.D. has other resources to offer as well, which can be valuable inducements in the absence of significant financial assistance compared to other donors. However, it must be noted that all sources of influence are weakened if U.S. decision-making is dominated by political considerations.

According to all respondents, the solidity and strength of technical arguments based on a careful analysis of the country situation, are often critical to negotiating success if well presented. As discussed previously, these arguments will have more meaning for government officials if the definition of primary problems and their analysis was conducted by the government itself or in conjunction with A.I.D. The main point is that the lead policy-and decision-makers must be convinced of the need for proposed reforms. A.I.D. can help bring about

agreement more readily if a dialogue with host country principals is begun from the point where problem priority areas are initially identified and analyzed. In the experience of more than one U.S.A.I.D. Mission, the Agency builds up more negotiating credibility with host governments if this partnership is begun from the onset.

A coordinated position with other donors on the need for specific reforms is, of course, a major source of negotiating leverage. The reader is referred back to sections 2.1 and 4.0 above which discuss some of the issues Missions should be aware of in affecting coordination. However it is A.I.D.'s promise of technical assistance offered within the context of a donor coordinated reform program which can serve as an additional inducement. Relative to other donors, A.I.D. has an established track record in providing technical assistance for implementation in the development management field. As mentioned previously, the provision of such services for assistance in implementing IMF and World Bank programs, or those aspects of programs which A.I.D. has taken responsibility for in a donor coordination situation, is a welcome resource addition.

A final source of inducement mentioned by many respondents, is the extent to which the Mission portfolio can be brought to bear on country macroeconomic and sectoral problems. In the Africa Bureau, the need for policy reform programs is now beginning to drive Mission portfolios. A coordinated portfolio program that provides technical assistance and other A.I.D. resources in support of policy reform programs is an important sign of commitment not easily ignored. For example, project assistance could be designed to provide supportive infrastructure for agricultural or private sector reforms and to support policy analysis capabilities in host country institutions. Technical assistance, either under a project or the reform program itself, could be provided to assist in institutional reforms and in program implementation. Other resources could include food aid or health programs for those groups who may be adversely affected by structural adjustment and economic stabilization programs.

Related support can also be provided from the resources allocated to the reform program itself. One interviewee mentioned that U.S.A.I.D. Missions are often fearful to allocate supportive resources from the reform program, because it will detract from the actual level of cash which can be offered. This fear ignores the fact that the level of financial resources is in itself not a sufficient inducement for obtaining policy reform agreement. The offer of supportive assistance, based on A.I.D. in-country presence, is an important resource that the Agency has to offer.

## 6.2 Negotiation Issues

Negotiation strategies, style, and cross-cultural

knowledge are absolutely critical to the outcome of major policy reform negotiations. Mission Directors Questionnaire respondents are all united on this point. The following sections describe successful strategies employed by U.S.A.I.D. Missions during the design and negotiation process.

The key strategy featured in all the success stories reported by U.S.A.I.D. Missions is based on the development of a consensus of opinion between A.I.D. and the host country. This has been achieved in numerous ways. Several A.I.D. Missions purposefully involved a broad host country representation during earlier discussion stages. This included representatives from the private sector and special interest groups (as were appropriate to the reforms which A.I.D. Missions wanted to propose). The identification of key progressives and decision-making elites in those government ministries who officially wield power is, of course, essential to framing a consensus as well. Usually this will include staff from the central ministries of finance, trade, investment, and planning, and from the central bank. Sectoral ministries should be involved as well to the extent that the proposed reform will impinge on that sector.

It is crucial to involve technical officers from the relevant ministries in addition to top ministry officials. Frequently it is the technical officials who are responsible for the implementation of reforms. A review of successful policy-based food aid programs (RONCO, 1986) also suggests that both A.I.D. and host government technical officers should be involved in discussions from the beginning to help maintain the substantive focus in negotiating reform content.

On the Agency side, respondents concur that the Mission Director must take the lead and get personally involved in the process. On occasions it is necessary to bring in the U.S. Ambassador and the A.I.D. Administrator to speak with the heads of central ministries and the host country prime minister or president, but usually only toward the end of negotiations. Several U.S.A.I.D. Missions also warned that it is extremely important that there be a consensus of opinion on the U.S. side. Governments will be quick to pick up on internal divisions which can have disastrous implications for achieving agreements.

Building a consensus is a long-term process. Gaining a broad representation for discussions, and involving the U.S. and host government principals, is just the first step. One Mission respondent suggests that consensus is best achieved through the joint identification of issues, the development of a shared data base, mutual discussion of problems, and the joint identification of policy options and implementation and monitoring plans. The World Bank's review of their negotiating experience (1986) also suggested that results have been best where the government's active participation was sought from the beginning in designing the program and formulating solutions. U.S.A.I.D. Missions which have successfully utilized this type

of approach are detailed in Appendix C.

A different strategic tactic that several A.I.D. Mission respondents recommended, is for A.I.D. principals to set their own sights fairly high when it comes to negotiating specific reform actions and timetables. The agreement on the final formulation will then represent a face-saving concession from each side.

In the long term, experience shows that A.I.D. must be consistent in its views, and prepared to knowledgeably discuss reform issues backed by qualified technical staff. Several interviewees noted that if the host country political climate does not permit serious discussion of reforms at a particular point in time, U.S.A.I.D. Missions should be prepared with good technical analysis and arguments when an opportunity arises to begin negotiations again.

U.S.A.I.D. Mission respondents are also in agreement that sensitivity to and knowledge of culturally-based negotiating styles is a key to success. One Mission respondent noted that "in Latin America, politicians will many times accept conditions on the basis of their personal relationship, level of trust and confidence in the U.S. representative. Sovereignty and nationalism are the two related factors that one must be most alert to not trample or give the appearance of disregarding. With Latins, form is many times as important as substance." Variations of this response were echoed in each of the geographic regions. All respondents noted the importance of developing warm, personal relationships as the basis for successful negotiations. Knowledge of culture and language are a key part of this process.

Other respondents highlighted the importance of displaying a genuine understanding and appreciation of the problems policy makers will encounter if reforms are implemented. It is critical that those individuals believe A.I.D. is doing its best to structure reform programs to take these problems into account.

Most A.I.D. Missions recommend a mixture of formal and informal discussions and negotiations relying on influence and persuasion rather than on leverage and conditionality. Several respondents noted that while it is important to temper friendly discussions with firmness at times, that coercion and confrontation is always disastrous. Governments may agree on reforms under these conditions, but the prospect for implementation will be greatly reduced. As one individual noted, "approach is everything."

The examination of A.I.D. experience in negotiation indicates that while the status and qualifications of A.I.D. principals is extremely important, it is not sufficient. One interviewee stated that in economic policy making, the critical element of success is long-term institutional relationships between the United States and the host government; personal

relationships with qualified, committed, patient people with a taste and ability for dialogue are also essential. (18)

Most interviewees pointed out that sensitivity and interpersonal and communication skills are important qualifications for negotiating team members. The design and negotiation of major policy reform programs is perhaps the most relationship-intensive activity in which A.I.D. engages. It calls for individuals who are willing to step out of the expatriate community and learn about the social, political and institutional culture of their host country. (19) In the experience of many individuals, policy reform programs frequently demand intensive personal involvement and patience that flows beyond the boundaries of a normal work day.

In the words of one U.S.A.I.D. Mission respondent, "In general, my experience in achieving policy reforms with host countries has been one of the most challenging, difficult, time consuming, but rewarding and successful aspects of my last six years with the Agency. It has deepened the positive professional relationships with host country colleagues. It has, in my judgment, increased the respect with which host countries hold U.S.A.I.D. as an organization and its personnel. It has had a beneficial impact upon our programs and their relevance to development issues."

## 7.0 CONCLUSION

This paper has attempted to summarize some of the key operational issues involved in the planning, designing, and negotiating of A.I.D.-supported policy reform programs, and to synthesize some of the Agency's recent experience in this arena. Hence, the primary perspective reported here is that of A.I.D. As such, the issues raised are undoubtedly familiar to those people in the Agency who have been directly involved with developing and negotiating A.I.D.'s policy-based programs. While much more could be said about every one of the issues covered, this document may serve to provide insights on the operational process for those who are interested in learning more about A.I.D.'s efforts and experience.

The primary conclusion of the paper is that the manner in which A.I.D. plans and designs, and then negotiates policy reform programs, has major implications for the degree of support the ultimate program will have from the host country government and its people, the implementation of that program by the host country, the sustainability of the reform program, and the tenor of bilateral relationships between the U.S. Government and the host country itself. From this brief review one may conclude that Agency efforts that stress collaboration, consensus-building, flexibility, sensitivity to cross-cultural differences, and appreciation of country political and economic situations, hold the most promise. The examples of Mission-Host Country collaboration for planning and design found in this paper reflect some of the Agency's most



successful efforts in supporting policy reforms. These examples of collaborative efforts serve as path-breakers for the development of a greater incidence of country-lead reform processes.

## NOTES

1. In April 1987, A.I.D. Administrator M. Peter McPherson sent a questionnaire to senior officers with field experience in conducting and overseeing policy negotiations. The questionnaire focussed on such issues as preparation for policy reform discussions, the structure for policy reform, negotiation, and implementation of policy reform programs. The purpose of the questionnaire was to help the Agency benefit from some of the "lessons learned" from efforts at policy reform. This report draws on responses from twelve completed questionnaires. It is referred to throughout as the Mission Directors Questionnaire.
2. For major reviews of A.I.D. and World Bank policy reform experience which discuss the relationship between selecting policy priorities and host government support for reform programs, see RONCO, Negotiating and Programming Food Aid: A Review of Successes, 1986; Haggblade, Liedholm, and Mead, The Effect of Policy and Policy Reforms on Non-Agricultural Enterprises and Employment in Developing Countries: A Review of Past Experience, 1986; World Bank, Structural Adjustment Lending: A First Review of Experience, 1986; Development Assistance Committee, Evaluation of Non-Project Assistance, 1987; Block, Bremer, and Hanrahan, Food Aid and Economic Policy Reform, 1988; and World Bank, Report on Adjustment Lending, 1988.
3. Interview with Roger Simmons, AFR/SWA, November, 1988.
4. Interview with David Carr, ANE/DP/PA, November, 1988.
5. Interview with Jerome LaPittus, PPC/EA, November, 1988.
6. The research reported here was financed by U.S.A.I.D., Bureau for Science and Technology, Bureau for Africa, and Mali Mission, under the "Food Security in Africa Cooperative Agreement" with the Department of Agricultural Economics, Michigan State University.
7. See Hood, McGuire, and Starr, The Socio-Economic Aspects of Macroeconomic Adjustment, 1988; and Vondal, Improving Non-Project Assistance through Better Social and Institutional Analysis: Suggestions from Africa Bureau Experience, 1988, for reviews and discussions of social impacts under sectoral and macroeconomic adjustment programs, and suggested analytical requirements for the design phase of such programs. Similarly, see Zuckerman, Adjustment Programs and Social Welfare, 1988, and also for her review of data collection approaches and analytical methodologies that are being applied to evaluate the

social welfare impacts of adjustment in World Bank structural adjustment lending programs. Heller et al., *The Implications of Fund-Supported Adjustment Programs for Poverty*, examines IMF macroeconomic and fiscal policy measures in a sample of seven countries, and their implications for poverty.

8. Interview with Charles Costello, LAC/CEN, November, 1988.

9. See Lamb, *Managing Economic Policy Change: Institutional Dimensions*, 1987, on suggested methods for institutional analysis for policy reform programs; and Grindle, *The Question of Political Feasibility: Approaches to the Study of Policy Space*, on suggested approaches and methodologies for analyzing the political feasibility of reform issues.

10. See Grindle and Thomas, *Policy Makes, Policy Choices, and Policy Outcomes: The Political Economy of Reform in Developing Countries*, 1988, for analysis and discussion of host government policy reform decision-making.

11. Interview with Samuel Rae, PPC/PB, November, 1988.

12. Interview with Jerome LaPittus, PPC/EA, November, 1988.

13. The consensus reported here on the need for donor coordination, is based on the responses to the Mission Directors Questionnaire, the responses of persons interviewed for this report, and the development literature which reviews World Bank and U.S.A.I.D. experience in designing policy reform programs (e.g., RONCO, 1986; Haggblade et al., 1986; World Bank, 1986, 1988; and DAC, 1987).

14. The 1987 Mission Directors Questionnaire asked respondents to rate the accuracy of how well they assessed, during the planning of policy reform efforts, the time requirements to actually enact the reforms. The majority of the 12 respondents gave themselves a poor rating on this issue. (The rating scale given was "Good," "Fair," and "Poor.")

15. Interview with John Tennant, ANE/PD/EA, November, 1988.

16. Interview with Clarence Zuvekas, LAC/DP, November, 1988.

17. See A.I.D. Policy Paper, *Approaches to the Policy Dialogue*, 1982. It also makes the point that the small size of a U.S. assistance program does not by itself rule out all possibilities of influence on a country's policies. The reader should consult this document for a further discussion of alternative resources A.I.D. has to offer countries as an inducement to bring about policy reform.

18. Interview with Charles Costello, LAC/CEN, November, 1988.

19. Interview with Daniel Chaij, ARA/AND, November, 1988.

## APPENDIX A

### A.I.D. PERSONNEL INTERVIEWED

PPC/PB, Samuel Rae  
PPC/EA, Jerome LaPittus  
ARA/AND, Daniel Chaij  
ANE/TR, Richard Cobb  
ANE/DP/PA, David Carr  
ANE/DP/PA, Meredith Scoville  
ANE/PD/EA, John Tennant  
LAC/CEN, Charles Costello  
LAC/CEN, Ronald Nicholson  
LAC/DP, Clarence Zuvekas  
AFR/DP/PAR, Jerome Wolgin  
AFR/DP/PAR, Donald Harrison  
AFR/SWA, Roger Simmons

### RESPONDENTS TO THE 1987 ADMINISTRATOR'S POLICY REFORM QUESTIONNAIRE\*

Eugene S. Staples  
Arthur M. Handly  
John Sanbrailo  
Daniel Chaij  
John R. Westley  
Charles W. Johnson  
Jorge Mario Godoy  
Donor M. Lion  
George A. Hill  
Charles Gladson  
John A. Patterson  
James Norris  
William B. Wheeler

\* Referred to in paper as the Mission Directors Questionnaire.  
See Annex 1, Note 1.

## APPENDIX B

### EXAMPLES OF SUCCESSFUL MISSION-HOST COUNTRY COLLABORATION

Several approaches have been tried by U.S.A.I.D. missions to gain concurrence for reform agendas. The following brief synopses provide an indication of specific tactics successfully employed by A.I.D. personnel.

In Guatemala, the A.I.D. Mission began close discussions on major economic problems with leading contenders in the election and their political advisors during the 1985 election period. The election coincided with a time when the country's economic situation was becoming acute. The Mission promised balance of payments assistance if a good reform program was

developed. At the conclusion of the election, many of the people the Mission had earlier cultivated through discussion came into power. Soon after the election, the President and Cabinet developed a program which included many elements of the Mission's own analysis and strategy formulation.

In Honduras, the Mission initiated dialogue on the subject of the economy after first developing its own analysis. The Mission drew government officials into discussion by asking them their opinions on the analysis. Although the U.S. Government has major foreign policy objectives in Honduras, the Mission was able to depoliticize the proposed ESF money through its approach. Initially it asked the government what areas it thought could be targeted for improvement in order to achieve economic growth; and also, what actions would have to be taken to sustain incomes once U.S. resource transfers to Honduras were concluded.

In Costa Rica, the Mission Director encouraged the formulation of an Interministerial Commission working group to identify economic problems, priority areas, and preliminary strategies for dealing with those problems. The Mission gave the host government a great deal of "behind-the-curtain" support by commenting on drafts of the Commission's strategy, and by providing analytical critiques based on its own analysis of the problems. The Commission came up with a strategy paper of reform objectives which the IMF and the World Bank agreed to support.

In Indonesia, the Mission elected to support the government on its own policy areas of interest in the agricultural and financial sectors. The Mission negotiated with various progressive individuals within the Government of Indonesia over what objectives in these sectors could be included in a sector assistance program. They eventually reached an agreement on an agenda over the period of a year based on continual discussions with the Ministry of Agriculture and Ministry of Planning. Program objectives were quantified under a performance-based disbursement system.

In Mali, the diagnosis of problems which eventually formed the basis of its economic policy reform program was done in a shared, collegial manner between professionals from the Mission, host government, and the private sector. The Mission provided the working groups with economic data previously collected for its own country assessments, and gave the Malians time to reflect on its implications for the economy before a jointly developed program was designed.

In Niger, a joint program assessment was undertaken by the Mission and the host government to assess rural development and agricultural sector constraints. As a result of this collaboration, an open dialogue has been institutionalized which has facilitated efforts to map out strategies for new policy reforms, and fortified political will for implementation.

## APPENDIX C

### CONDUCTING AND PRESENTING ANALYTICAL WORK FOR POLICY REFORM: AN EXAMPLE FROM MADAGASCAR

The Office of the A.I.D. Representative (OAR) in Madagascar worked closely with the UN Family Planning Association (UNFPA) and the Directorate of Planning in the Office of the President to help achieve a national population policy. The idea was to convince other government officials of the need to introduce family planning programs as a means of curtailing negative consequences of continued high growth rates. Malagasay culture and religious beliefs previously dictated against any such programs.

The O.A.R. drew on the centrally funded RAPID project to draw together information with the Plan on the impact of continued population growth in the country, and to then present this information at Madagascar's first national conference on Population and Development. Using government demographic statistics and colored graphs on computers, the consultants were able to vividly demonstrate what impact population growth would have on the housing, education, health, and environment sectors in 10, 15, and 20 years. One scenario was portrayed using lower growth rates based on the assumption that a family planning program was in place. The second scenario portrayed population impacts on those same sectors based on the assumption of no family planning programs. The President invited top government decision makers and the U.S. Ambassador to attend the conference where this information was presented, and asked a respected political leader to open the conference. As a result of this conference and presentation, the new population unit within the Directorate of Planning (supported by UNFPA) was given the go-ahead to work on developing a national population policy. Since then, the O.A.R. has worked closely with the Government to help plan and prepare a population program which, hopefully, will be declared in early 1989.

Important to note in this example is that in addition to this very influential analytical presentation before the Government leaders, was the additional spade work done by U.S. short-term technical assistance, under contract with S&T/Population. The A.I.D. Representative played a role by arranging for the RAPID presentation and the follow-up work under IMPACT, and by assuring that this work supported the Population Unit in the Directorate of Planning. Also, the U.S. Ambassador gave full support to the program. A Malagasay on the staff of O.A.R. who was well respected and who had many contacts set up all the meetings and made introductions for the contractors who were brought into make the presentation and assist with follow-up studies. Finally, the O.A.R. worked closely with the UN Family Planning Association in sharing the foreign exchange costs of the development of Madagascar's first population program.

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